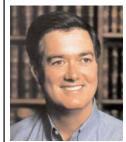
# Health Line A Publication of the Department of Personnel & Administration

July 2002



## Governor Committed to More Affordable Health Care



*Editor's Note:* The following is a June 7, 2002 letter from Governor Owens to the Colorado House of Representatives Ladies and Gentlemen:

I am filing with the Secretary of State, House Bill 02-1468, "Concerning the state contribution for employees enrolled in group benefit plans that include enrollment in medical benefits, and making an appropriation in connection therewith." I will neither sign nor veto House Bill 02-1468. Therefore, this bill becomes law at 12:01 A.M. on June 8. This letter sets forth my reasons for letting this bill become law without my signature.

Medical costs for state employees have soared and are expected to continue rising by a significant percentage for the near future. When I took office, I proposed raising the state's contribution to worker's premiums to help mitigate the increase in costs, and to compensate for the fact that Colorado ranks 48th in the nation in the amount of money the state contributes to its employees' insurance premiums.

Unfortunately, the Joint Budget Committee (JBC) only partially funded my request. This year, I asked the JBC for an additional 8 percent increase in the state's contribution. This amount reflected the additional funding the JBC rejected last year plus an extra cost-of-living increase for 2002. Unfortunately, the JBC again chose to only partially fund my request. While the increase in the state contribution contained in House Bill 02-1468 will help somewhat, it does not keep pace with significant increases in health care premiums that will fall largely on the backs of our state employees.

Because lower-income state employees will be even less likely to afford health insurance, I supported an amendment to House Bill 02-1468 that would have authorized the Department of Personnel and Administration to conduct a pilot program to provide alternative low-cost health care for low- to middle-income state employees and their dependents.

I was disappointed to see that this amendment was not included in the final bill. Despite my reservations with House Bill 02-1468, some increase in the state contribution to employees' health premiums is better than no increase. Accordingly, I am allowing House Bill 02-1468 to become law without my signature. I also look forward to working with the legislature next year to make fundamental changes to the state health plan that will provide more affordable options for state workers.

Sincerely, Bill Owens

## When Will I Get My 2003 Rates?

DPA knows how important 2003 health plans and rate changes are to employees, and we are committed to supplying you with this information as soon as possible. We are planning to publish a summary of plans and rates in the next *Healthline* Newsletter, which will be available at the end of August.

#### Why the end of August?

Proposals for existing contract renewals and proposals based on RFPs for redesigned plans were due from vendors July 1. State benefits professionals and contracted private health care experts reviewed all proposals and made their recommendations to the DHR Management Team and DPA's Executive Director, Troy A. Eid.

Currently, Troy and the DHR Management Team are reviewing the recommendations and proposals in order to most effectively negotiate final rates and terms with vendors. Thus, we will have 2003 plans and rates agreed upon by the end of August and distributed in the next newsletter.

"2003 Rates" continued on Page 2

## No Easy Way to Put it - a National Health Care Crisis

Recent summer headlines across the nation and in Colorado scream the story: "U.S. health insurance costs expected to rise 20 percent," *Philadelphia Inquirer*; "Industry reports health care costs to skyrocket," CBS.com; "A health care war is raging," *New York Times*; "Health insurance rate hikes expected," *Los Angeles Times*; "HMO costs – and copays – on the rise," *Christian Science Monitor*; "Health premiums skyrocketing," *Rocky Mountain News*.

The picture is bleak, and the consequences for employers, employees and all health care consumers are immensely challenging. "Companies cannot afford these increases," says Mindy Kairey, e-business leader for Hewitt's Health Management Practice. "Consumers should expect to pay a lot more for health care." Health care experts throughout the nation point to other strikingly similar consequences:

- Health plans are struggling to break even;
- Employers are losing their negotiating leverage with health plans;
- Employers are facing double-digit premium increases for the third year in a row:
- Employers are shifting more of the cost to employees;
- Employees are paying higher premiums;
- · Employees are paying higher co-pays;
- Smaller employers are being forced to drop health coverage as a benefit;
- Consumers are being made more aware of and paying more of their actual medical costs;
- Consumers are having to make more choices to save out-of-pocket expenses – emergency room or office visits, brand name or generic drugs, this hospital or that hospital;
- Consumers are having to pay more for specialty-care office visits and brand name prescriptions;
- Insurers and employers are educating consumers about making wiser health care choices.

"We do not foresee any relief anytime soon in these rising costs," said Jim DiGuiseppe of Mercer Human Resource Consulting in Philadelphia. So what does this mean? Employers and insurers, in Colorado and across the nation, are restructuring health plans to prepare consumers – that's you and me – to be more aware of the true cost of health care choices and usage. Those of us who are currently enrolled in the state's PPO plan have already been making those difficult choices.

### Unique Challenges for the State of Colorado as an Employer

In pursuit of the goal to design and offer employees health insurance at a reasonable cost, every business in the nation is constrained by the same challenges:

- Fixed statutory codes that mandate certain requirements;
- Insurance market demographics, geography, plan design and competition;
- Medical economics the cost and availability of doctors, nurses, supplies, drugs, technology, and hospitals.

As an employer, the State of Colorado faces unique challenges in all of these. Statutes currently require the state to offer two HMOs in any county with 500 or more state employees. This limits our ability to leverage our purchasing power and to offer other types of plans.

The demographics of our user group has a negative impact on costs as well. The average age of the state workforce is 45 years old. We also must provide insurance for employees in every county in the state. The medical economics in rural counties and communities, where there is a limited availability of doctors, nurses and facilities, also drive up costs.

An additional hurdle is that the state's current contribution to employee health care premiums, which saw no increase from 1994 to 2000. It continues to lag behind the prevailing market practice, faces legislative constraint and is affected by the current state budget difficulties.

All of these factors have made our task of designing and offering an affordable and worthwhile health plan even more difficult.

#### "2003 Rates" continued from Page 1

We are providing department benefits administrators with the most current information we have available. We encourage you to speak directly with your department's benefits administrator with any questions or concerns you may have about this process, the health care issues we are all facing, as well as any other state employee health care concerns. Your department benefits administrator can also explain how we are working to bring you affordable health plans for 2003 and beyond.

DHR is also here to help you. You can find answers to the most frequently asked health care questions as well as continually updated information at www.state.co.us/dhr - Quick Links - Benefits 2003. In addition, you may contact us with your questions and concerns by emailing us at benefits@state.co.us or by calling the Benefits Hotline at 303-866-3434 or 1800-719-3434.

## **DPA Working for Improved Health Insurance**



Troy A. Eid

The Department of Personnel and Administration (DPA) and our Human Resources professionals have been working tirelessly for months to address the escalating cost of health insurance for state employees and their families. Health insurance costs continue to rise sharply throughout the United States, prompting carriers to raise Executive Director, rates, reduce benefits, and stop serving various regions and types of customers, especially in the small-employer market.

Here in Colorado, DPA's focus has been: (1) to support Governor Owens in his call for more employee benefits, including increasing the state's contribution to the employee's insurance premium: and (2) to maximize and leverage the state's buying power to slow down the rate of these increases. Longer-term, our top priority is to develop new strategies and options for reducing insurance rates, including self-insured defined contribution (or "DC") plans that help employees better

manage their own health insurance needs.

In terms of increased total compensation, DPA logged one of the largest increases in at least a decade despite the tightest state budget in recent memory. successfully convinced the Legislature not to deny or delay employees' 2002 Salary Survey. And after 25 years of discussion, DPA on July 1st implemented Colorado's Pay for Performance system. Together, these initiatives put more money in employees' pockets to help deal with rising health care costs.

Unfortunately, there is no "silver bullet" or quick fix to deal with today's volatile insurance market. But by continuing to work together, we will meet this challenge.

#### Results from Legislative Action

This year, Governor Owens and I asked the Legislature to increase the state's contribution to employees' insurance benefits by 8 percent. While the General Assembly did not approve this request, it did pass a 4 percent increase in House Bill 02-1468. This 4 percent increase maintains the current 2002 state contribution for 2003. Without this 4 percent, employees would have seen a decrease to the previous 2001 state contribution level. This bill also makes another change long sought by DPA: that future insurance cost-of-living adjustments be included in the state's annual budget the so-called "Long Bill" - rather than set by statute. This change will make it easier to increase benefits in future years without requiring separate legislation.

DPA also helped get legislation passed in last year's legislative special session that created a special health insurance pilot program in Pueblo County for 2002. DPA used this pilot program to provide a new insurance offering in Pueblo that reduced premiums by 10 percent. These savings were achieved by redesigning plan options, including increasing co-pays and deductibles.

While the Pueblo pilot project plan reduced premiums, it is only a temporary remedy against the increasing health care costs we face. The State needs to return to self-financing and capitalize its own insurance pool rather than contracting for health insurance on the open market. Consequently, DPA is now actively exploring ways to capitalize its own self-insurance program and has requested assistance from the JBC in this effort.

#### Moving toward more affordable health insurance

Using DPA's Pueblo County pilot program as a model, the Department's Human Resources Division developed two new Requests for Proposal (RFPs) designed to limit insurance rate increases for calendar year 2003. Based on preliminary discussions with carriers and our own insurance actuaries, health insurance rates are expected to rise by as much as 36 percent in '03. DPA is working to limit these increases in the short-term through plan redesign and by leveraging the state's purchasing power. Over the long-term, DPA is working toward incorporating self-funding back into the state's health care programs as a means of offering more affordable DC plans to employees.

At the same time, DPA continues to advocate for increased insurance benefits with state Legislators throughout Colorado. Last year, the Human Resources team and I led a series of 16 "town hall" meetings where employees could share their concerns with legislators. This year, DPA is conducting "The State of the State Workforce" town-hall series throughout Colorado as a way to continue this advocacy. Please check the DPA website at www.state.co.us/dpa for a schedule of these meetings.

Looking forward, DPA expects to have final bids from insurers on the new RFPs by the end of July and will release actual 2003 premiums in the August newsletter.

#### In the August *Health*Line

- A Summary of 2003 Plans
- 2003 Rates
- A Guide to Using Flexible **Spending Accounts**
- Understanding the True Cost of **Health Care**

Concerns?

- Insurance Who Can I Speak with About My Questions or
- DPA Responds Working for Improved Health
- Unique Challenges for the State as an Employer
  - A National Health Care Crisis
  - When Will I Get My 2003 Rates?

## Important Benefits Information Enclosed:

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